

STATEMENT BY:
BRIGADIER GENERAL FRANCIS L. HENDRICKS, U.S. AIR FORCE
COMMANDER, ARMY AND AIR FORCE EXCHANGE SERVICE
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Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to share the work the Army and Air Force Exchange Service (AAFES) is doing to enhance the quality of life for members of the Armed Services and their Families. Before I proceed with my remarks, I would like to thank you for your commitment and dedication to supporting and defending the exchange benefit for those who serve.

AAFES is a team of approximately 43,000 dedicated associates who share a commitment to making the lives of Soldiers and Airmen better. AAFES has proudly served America's armed forces for nearly 117 years, and we remain focused on our longstanding mission: delivering quality goods and services at competitively low prices and generating earnings which provide a dividend to support Morale, Welfare and Recreation (MWR) programs. The AAFES vision is to be the first choice of the men and women who wear the uniform. AAFES is also embedded within the military community as a key provider of value, service and support. In short, we serve three roles: provider of an important quality of life benefit for Military Service Members and their Families, relevant team player within the Army and the Air Force and committed partner to the larger defense community.

AAFES is a military organization with a retail mission; we are responsible for more than 2,970 facilities in 31 countries, 5 U.S. territories, and all 50 states. We operate 157 Main Stores and more than 2,000 fast food restaurants, including 45 brand names and 8 in-house brands. AAFES also provides military communities with Express convenience stores, movie theaters, car care centers and gas stations, personal services (Beauty and Barber shops), professional healthcare (optical and dental services), specialty stores and Military Clothing stores on installations worldwide. Remote corners of the installation are served by Troop Stores, which have a customized assortment tailored with unique products to support the local mission. For

patrons off the installation, AAFES partners with other popular retailers through online and local concession operations to provide many additional products and services above and beyond the traditional offerings. Online shopping makes it easy for patrons in any location, with over 18 million items available through the exchange website (shopmyexchange.com) and specialty stores in our exclusive online vendor mall which saves shoppers 5 to 20 percent.

With the recent end of U.S. military operations in Iraq, it is worthwhile to reflect upon the efforts of AAFES to serve those serving there. In the early spring of 2003, as U.S. ground forces fought their way up the Euphrates and Tigris rivers, AAFES was with them. Our first store in Iraq operated out of the back of a Toyota Land Cruiser. As troops advanced northward, so did our store. From those humble beginnings, AAFES support continued to grow and at the height of the efforts in Southwest Asia, AAFES operated 95 sites throughout the theater. During the next eight years, more than 4,000 AAFES associates volunteered to live alongside the military and to operate retail stores, food activities and movie theaters. The importance of those services to the morale of troops was immense. AAFES brought them the products they were accustomed to, the food they craved. And in that moment, at that place, we made them feel at home. In Iraq, we did that for eight years and continue to do so in Afghanistan today.

The current AAFES footprint in support of Operation ENDURING FREEDOM includes more than 70 exchange retail facilities along with hundreds of associated food, services and concession operations. Our experience over the past decade, and in previous military operations over the past 116 years, has taught us to remain nimble and flexible. AAFES is ready to shift our dynamic footprint, as necessary, to meet changing needs on the ground. These contingency operations are among the most important aspects of patron support we provide, and demonstrate AAFES is fulfilling our pledge to deployed military members – “We Go Where You Go.”

At home, AAFES is ready to deploy a mobile field exchange (MFE) and contingency-trained associates within 72 hours of notification to provide much needed comfort items for military personnel and authorized patrons. In 2011, 13 MFE units were deployed to support North American recovery efforts such as the Missouri flood disaster, the heartland tornadoes, and the East Coast flash flooding. Additionally, two MFE units deployed to Central America during humanitarian missions in Haiti and the Dominican Republic. No matter where contingency operations occur, we work with commanders on the ground to deliver the exchange benefit.

AAFES' number one priority is to meet the needs of military patrons and their families throughout the various stages of their career and into retirement. A strong exchange benefit is one of the cornerstones of the military way-of-life enhancing recruitment and retention and ensuring the readiness of the armed forces. Some retailers focus on entry price (low budget) products while other retailers maintain assortments geared toward the high end (high budget). Some retailers carry only private label house brands while others focus on high-end brand names. AAFES works with our vendor partners to ensure exchange patrons find goods across all price points; low, medium and high, as well as many value private label products and many national brand name goods. The AAFES retail product assortment is unique in that it is tailored to meet the lifelong needs of all military customers, from the new recruit to the General Officer, and everyone in between. Of course, we do not do this alone, but in collaboration with our vendor partners and military support organizations. I want to thank these organizations including the American Logistics Association and the Armed Forces Marketing Council who represent the business interests of companies in the military channel and advocate for Quality of Life benefits for Service Members.

AAFES endeavors to offer products to Soldiers and Airmen that meet their unique needs. One example is our in-house credit card. Designed for U.S. Service members and their families and operated on behalf of the sister exchanges, the exchange credit program's MILITARY STAR® credit card affords patrons a low-cost method to acquire household items and necessities while at duty stations far from home. Also, extended to Reserve and Retired Service Members, the exchange credit program offers a low interest rate, an unmatched deployment policy and no annual, late or over-limit fees. Popular among cardholders are special offers such as discount pricing on fuel purchases throughout the year at Express fuel stations and ten percent off food court purchases every day.

Telecommunications service is another business we have tailored to meet the unique needs of Soldiers and Airmen. This past year, AAFES fully introduced Exchange Mobile Centers throughout the continental U.S. (CONUS) as a one-stop shop for mobile communications. Service Members stay connected through the latest smart phones and service plans, at very competitive prices, with expert assistance from kiosk staff. Similar initiatives are underway in Europe and the Pacific. The AAFES telecommunications program brings convenience, selection and value to military members around the world, providing cell phone hardware and calling plans, telephone landlines and pay phones, internet, television services and calling cards at discounted prices. AAFES currently has 1 million customer accounts across more than 120 worldwide installations.

Communication with military leadership is a key component to providing a relevant and valued exchange benefit. Last year, AAFES continued to build its critical outreach program with base and post commanders to improve customer services. These installation commander forums create opportunities for education and information on vital topics, including the scope of

services, special retail programs and upcoming promotions. These meetings also provide opportunities to collect vital information from commanders on ways to improve patron satisfaction and enhance the benefit.

Keeping authorized patrons informed about their exchange benefit has been a top priority for AAFES over the past two years. In 2010, AAFES initiated an intensive and comprehensive effort to reach National Guard and Reserve members and families who may rarely find themselves on an installation. Regional and exchange managers made hundreds of personal and group contacts with Guard and Reserve leadership and members. To better communicate with retirees, AAFES has restructured and re-energized the Exchange Retiree Advisory Council. This council gives retirees a direct voice to AAFES leadership on issues of importance to this valued community.

In 2010, AAFES began a conversation with patrons that resulted in the launch of a new branding campaign which captures the essence of our mission: you save money, we give back. There are not many major retailers that can promise such an excellent value in merchandise, and continue to give back to patrons and family members, long after the sale is complete.

The conversation continues through emerging technology and various social media tools. AAFES participation on Twitter, a micro-blogging tool, has garnered over 1,600 followers; but more importantly, it is a real-time customer service tool in which patrons can give and get immediate feedback. AAFES also has an active official Facebook Fan Page. This online hub allows AAFES to promote local store events, host contests and provide a community for military members to connect with each other. The fan page currently has more than 110,000 fans and is steadily growing every day. Finally, AAFES touches patrons through the Exchange YouTube Channel. Content includes Celebrity Spotlight and other non-advertising video that customers

upload and loyally return to check for updates. The site now averages 1000-1500 views per week.

One of the most important contributors to a positive patron shopping experience is the physical complex. In the past decade, AAFES has managed more than \$340 million in new construction projects to support military transformation. As that effort nears completion, we are shifting our focus toward sustainment, or maintaining and improving our current facilities. With an average age of 23 years old, the overwhelming majority of AAFES shopping centers have useful lives left, provided we keep them up to industry retail standards. Since 2009, AAFES has undertaken 29 shopping center image updates and in the past two years, accelerated 12 image updates to take advantage of the economic bid climate, which saved more than 30 percent or approximately \$18 million on initial bids. Our efforts are consistent with decreasing military budgets and better prepare us for potential force structure changes. Now, more than ever, AAFES is focused on maintaining the facilities we have and investing wisely at enduring locations.

AAFES' first duty is to provide value, service and support to authorized patrons, but we must never forget our unique and important role within the military departments in which they serve. AAFES returns more than 60 percent of earnings to support Army and Air Force MWR programs and reinvests the remaining dollars to ensure shopping facilities are safe, eco-friendly and modernized. In the past ten years, AAFES has contributed more than \$2.4 billion to support Quality of Life programs such as youth services, arts and crafts, aquatic centers, golf courses, bowling centers and more.

The appropriated fund (APF) support AAFES receives is minimal compared to the value of services we provide. AAFES receives approximately two percent of retail sales in APF –

about \$294 million in 2011 – to fund military salaries, overseas shipping and utilities, and authorized expenses to support contingency operations. AAFES uses nonappropriated dollars to fund the remainder of business expenses, including civilian salaries, store inventories, capital investment and store improvements, operations costs and distribution support. This self-sustaining business model is effective. The return on investment of these APF dollars is returned exponentially to the Army and the Air Force, as well as Soldiers and Airmen, in the form of a robust and comprehensive exchange benefit.

The scope of AAFES operations makes it clear that we are not just the retailer on the installation. AAFES is embedded in the fabric of military life providing a host of unique programs and services that make Service Members' lives better. AAFES relevance to the Army and the Air Force is evidenced by the fact that these programs and services could not be easily replicated by another retailer; no commercial competitor comes close to matching AAFES' extensive and unique capabilities.

AAFES is the official one-stop source for military uniforms and accessories, for both the Army and Air Force, and is a proud partner to the Defense Logistics Agency – Troop Support. AAFES supports Service men and women with the highest quality U.S. made products available, operating 176 Military Clothing Stores worldwide. Exchange Military Clothing Stores carry issue merchandise, which is sold at cost, as well as non-issue merchandise which is designed by the Military services per spec and high quality. A vast assortment of additional merchandise is available for ordering online as well.

As the designated school feeding authority for both the Army and the Air Force, AAFES provides lunches to school children in overseas U.S. Military communities; 4.1 million lunches are served each year in 89 school cafeterias across nine countries. Parents put their children's

health at the top of their concerns, and AAFES is proud to provide these children with healthy and safe food overseas.

AAFES operates 124 movie theaters across the globe, showing popular first-run films and other theatrical events. Last year AAFES hosted 17 major theater events, which included free movie screenings most complete with celebrity appearances. These events draw huge crowds and provide lasting memories for military members and their families around the world.

AAFES patrons are not only the 12.4 million eligible active duty troops, retired military, National Guard members, Reservists and their families, but also valued customers to include those military and other federal government entities looking to stretch their budget dollars. They are our business-to-business (B2B) customers – military units, other federal departments, agencies or instrumentalities. AAFES has initiated a B2B program to inform these authorized organizations of the value of shopping at the exchange.

AAFES partnership efforts across the Department of Defense (DoD) begin at “home” within the defense resale community. As the chair of Cooperative Efforts Board (CEB) for 2012, AAFES is energizing cooperative efforts initiatives with military resale: the Navy Exchange Command (NEX), Marine Corps Exchange (MCX), Coast Guard exchange and the Defense Commissary Agency (DeCA).

The exchanges already share a rich history of joint ventures including the combined house brand MILITARY STAR® credit card, the all services Exchange Catalog and online shopping service, and a variety of logistics and merchandise support partnerships. Expansion of the board to include DeCA serves to formalize the discussions and projects already ongoing between exchanges and commissaries. Over the past several months, the CEB has renewed our

commitment to effective partnerships, focusing on mutually beneficial efficiencies in five areas: logistics, non-retail procurement, private label merchandise, policy and legislative initiatives and one time/seasonal buys.

The cooperation isn't limited to the other exchanges and the commissary. By utilizing the AAFES warehouse and distribution network, Army Installation Management Command (IMCOM) in Europe was able to streamline their logistics support to MWR programs. Collaboratively, we lowered the unit delivery costs, improved outbound utilization, eliminated IMCOM inventory carrying cost and reduced labor and maintenance expenses.

Overseas, AAFES is committed to supporting the military community health and food safety through the operation of seven manufacturing plants throughout the Pacific and Europe. These plants include four bakeries, three water plants and one ice plant, all servicing other federal organizations such as DeCA, NEX, MCX, U.S. Army Installation Management Command facilities, and the Department of Defense Education Activity (DODEA). AAFES bakeries are the only producer of Wonder Bread outside the U.S., producing 6.2 million fresh baked bread products (loaves, hamburger and hotdog buns) to military families. AAFES water plants provide 5.4 million gallons of Culligan-branded drinking water annually.

AAFES owns and operates a robust logistics organization to deliver Soldiers and Airmen the products they need and want, anywhere in the world, they live and work, at the same prices they pay in CONUS. Appropriations for Second Destination Transportation funds are the foundation of this support and I want to thank this committee for their steadfast commitment to funding this important exchange benefit. AAFES is a good steward of these appropriated dollars, taking care to optimize logistical efficiencies to keep prices down and reduce costs to the government. As the largest peacetime shipper in the Defense Transportation System, AAFES

moves approximately 50,000 shipping containers annually, while partnering with US Transportation Command and multiple commercial surface and air carriers. AAFES merchandise transits 10 worldwide distribution centers and 7 consolidation centers and we are constantly looking for ways to make improvements. In 2011, AAFES fleet installed global positioning system tracking devices on all trailers in CONUS reducing capital expenditures through better utilization of trailers and coordination of deliveries with customers

AAFES supports DoD-wide programs to “go green” by incorporating sustainability as one of our strategies for winning the future and reducing our carbon footprint. Reducing energy, water consumption and waste generation is a win-win situation for all, making partnerships between AAFES and installations crucial. One project of note is the partnership between AAFES and the Rocky Mountain Institute to pilot energy savings at the Fort Campbell, Kentucky food court. We will install an energy management control systems and energy efficient equipment upgrades and analyze results that could increase energy savings up to 30 percent. Using the pilot results, AAFES and Rocky Mountain Institute will develop a food court energy model to roll out the program across CONUS exchanges.

AAFES has been recognized by the Department of Energy with the 2010 Federal Energy Management Program Award; by the Department of the Army with the 2010 Secretary of the Army Environment Award; by the DoD with the 2011 Sustainability Team Award and by Convenience Store News with the 2011 Honorable Mention Best Green Design Award. AAFES is recognized as “Best in Class” by these agencies in sustainability compliance, and continues to obtain Silver Level certification in Leadership in Energy and Environmental Design (LEED) through the U.S. Green building Council. Currently, three major AAFES locations are LEED Silver Certified, with many more projects in the works to achieve this status.

During my assignment at AAFES, I've travelled to literally hundreds of our facilities and without exception, it is the people who make AAFES great. Almost half of the approximately 43,000 AAFES associates have a military connection; 31 percent are military spouses and family members, and veterans account for 13 percent of the total AAFES workforce. AAFES' employment preference and spouse continuity programs allow veterans, retirees and the families of active-duty and National Guard and Reserve families to build careers with the exchange. AAFES understands and values the unique perspectives these patrons bring to the "other side of the cash register." In the past two years, AAFES has hired more than 11,000 military spouses and promoted about 2,300 at exchanges around the world. Their values of loyalty, professionalism and commitment are exactly what we look for when hiring.

AAFES also offers employment opportunities for those who have served. The Operation War Fighter program provides internships designed for wounded, ill and injured Service Members to develop the skills needed for transition into the civilian workforce while undergoing treatment. In addition, the Wounded Warrior Hiring program includes partnerships with the Wounded Warrior Project as well as other military hiring agencies.

Our commitment to hiring current and former military personnel and their families have brought AAFES significant recognition: *Military Spouse Magazine's* "Top 10 Military Spouse Friendly Employers," *G.I. Jobs* magazine's "Top 100 Military Friendly Employers," and CivilianJobs.com's "Most Valuable Employers for the Military," to name a few.

AAFES' work in the area of diversity and inclusion is moving the organization toward model agency status. To provide a more comprehensive program, diversity and inclusion was merged with our Equal Employment Opportunity program in May 2011, and the results are paying off. In 2011, nearly 11 percent of the AAFES workforce had disabilities and I am proud

to say we received the distinction of being ranked #1 in the DoD in hiring individuals with targeted disabilities. Our excellence in this area has not gone unnoticed outside of the federal government as well. Cornell University in Ithaca, New York sought out AAFES to partner in the study of employment opportunities for people with disabilities. Funded by a grant from the U.S. Department of Education, the research will explore existing employment opportunities and identify barriers and possible solutions for individuals with disabilities.

AAFES associates are well-trained and prepared to serve; many are specialists in their fields. Thousands of AAFES associates hold one or more of 287 different professional certifications, including Certified Public Accountant, National Retail Certification, Project Management, and Food Services. AAFES operates its own in-house Corporate University and Executive Development Programs, as well as College Trainee and Management Trainee curricula.

My remarks about AAFES associates would not be complete without a salute to the more than 4,100 employees who to-date have volunteered to deploy in support of contingency operations. These brave men and women left the comfort of home and family to serve alongside the Service Members they support. They have earned the admiration of their colleagues and the respect of those they serve. To these and all AAFES associates, I offer my thanks and appreciation.

During my time as Deputy Commander and now Commander of this great organization, I have had the pleasure of working and interacting with authorized patrons and the tremendous people who support them and I have witnessed firsthand the value of benefit for Service Members and their Families. AAFES is entering a historic period of change as we transition from military command to civilian direction in the coming months. The organization is

embracing this change even as we renew our promise and pledge to Soldiers, Airmen and their Families to make their lives better. I often say that “service” is a part of the AAFES name, and that value will continue to define our course through the coming years.

Thank you again for this opportunity. I look forward to your questions.